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Some Banks Opt Not to Travel The PC Route

By JEANNE IIDA

A few leading-edge banks are installing multimillion-dollar networks of personal computers in their branch offices, and many more are considering such outlays.

Proponents of the new approach say PCs can change the way branch personnel work, allowing them to market more effectively. But some bankers contend that branch personnel do not need PCs to cross-sell products.

Traditional systems with a controller supporting scores of dumb terminals "get the same thing accomplished as a PC," said George P. DiNardo, executive vice president and technology chief at Mellon Bank Corp.

ANALYSIS: *Follow-up on the news*

Controller-based systems are more sophisticated than ever before, observers say. And although controllers are expensive, the overall cost of such systems is considerably less than that of a PC network. A system of 10 PCs can cost one and a half to three times that of 10 terminals attached to a controller.

The cost of replacing an entire branch network with PCs can cost a large banking company tens of millions of dollars.

Two leaders in the migration to PCs, BankAmerica Corp. and Royal Bank of Canada, are near completion of personal computer networks. Analysts say each banking company will spend $50 million to $100 million on the project.

Security Pacific Corp. and Banc One Corp. are among the large companies following suit.

Advocates Cite Functionality

The main benefit of PCs is functionality, these advocates argue. Personal computer networks will open a whole range of new opportunities for selling products, they contend, because users have access to graphic, standard spreadsheet, and word processing software.

"Smart banks know you have to put in PCs to give people the functionality to serve customers," said Michael Simmons, executive vice president and chief of technology at Bank of Boston. "It's the coming trend."

During his tenure as technology chief at BankAmerica, Mr. Simmons oversaw the plan to install 21,000 PCs in the branches by early 1991. He is heading a similar effort at Bank of Boston, which has not established a timetable for its project.

Shawmut National Corp. and

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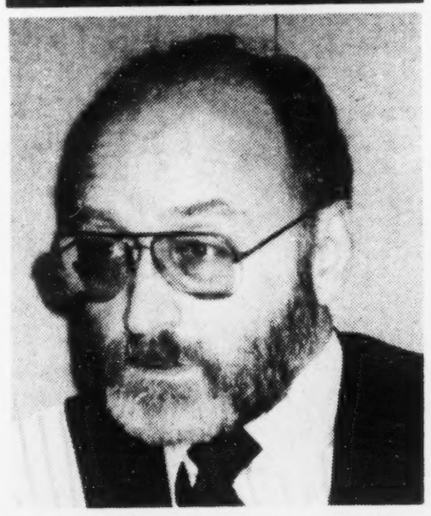
INSIDE NEWS

WASHINGTON



M. DANNY WALL defended his handling of the 1988 sale of 15 Texas thrifts to James Fail. He told a Senate panel that a lobbyist with ties to then Vice President Bush did not influence his decision. *Page 2*

FINANCE

SALLIE MAE shares fell $2.25 by late afternoon Tuesday as investors bailed out of the once highly regarded stock. *Page 24*

TECHNOLOGY

THE GENERAL Accounting Office contends that poorly planned information systems at the Resolution Trust Corp. could delay as well as raise the cost of the thrift cleanup. *Page 3*

INTERNATIONAL

NATIONAL WESTMINSTER, Britain's No. 2 bank, faces a tough second half, according to its chairman, Lord Alexander. *Page 14*

CONSUMER

THE BIGGER the bank, the greater the likelihood that it charges above the average for a regular retail checking account, according to an ABA survey of 448 commercial banks. *Page 2*

MANY CUSTOMER service representatives, who have a key role in cross-selling bank products, do not receive even basic training. *Page 8*

COMMENT

THE CRISIS in banking has far more serious implications for the economy, and the nation, than simply another taxpayer bailout, writes Lowell L. Bryan. *Page 4*

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Seidman Sees $2 Billion Loss at FDIC

By BILL ATKINSON

WASHINGTON — In the strongest indication to date that the cost of bank failures will rise dramatically, Federal Deposit Insurance Corp. Chairman L. William Seidman said on Tuesday that the bank insurance fund is likely to suffer a net loss of $2 billion this year.

The net decline, to about $11 billion after accounting for interest and premium income, would reflect gross payouts from the insurance fund of about $6 billion. That would be 50% more than the FDIC's $4.1 billion in gross liquidation and insurance losses in 1989 but still below the $7.4 billion it paid out in 1988.

No Specific Predictions

While Mr. Seidman was not specific in his predictions of possible bank failures and their timing, he called the $2 billion loss "a reasonable estimate."

It could be caused by one or more large bank failures or an increase in failures of smaller institutions.

Mr. Seidman said the number of banks on the FDIC's problem list continues to exceed 1,000, where it has hovered since last year. The agency has closed 113

See **SEIDMAN** *page* **15**

Citicorp Defection Seen Derailing UAL Buyout

By WILLIAM GOODWIN

Citicorp's departure from the bank group leading the financing for the proposed $4.4 billion union-led buyout of UAL Corp. appears to have all but doomed the deal for now, banking sources said Tuesday.

Unless the buyout group can come up with an outside equity investor before its Aug. 9 deadline, the bankers said, it was hard to see how the deal could be completed.

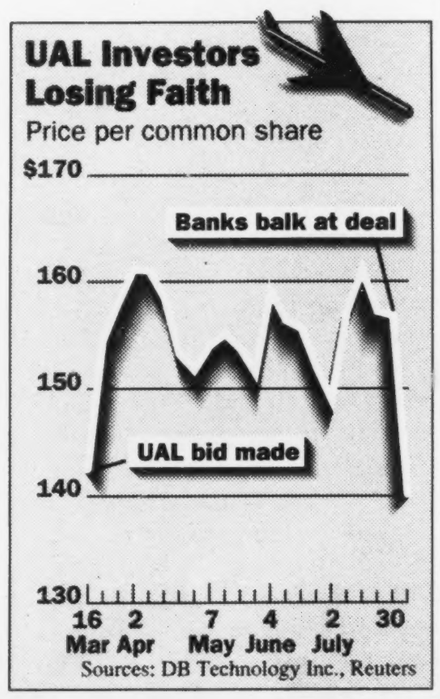
Citicorp and Chemical Banking Corp. both pulled out of the bank group Friday, sources said, because the unions had failed to come up with an equity investor.

It remained unclear Tuesday whether Chase Manhattan Corp. had also balked. Chase, along with Citicorp and Chemical, did not attend a UAL bank meeting Friday.

That would leave only Bankers Trust New York Corp. and Manufacturers Hanover Corp. remaining in what was originally a five-bank group. None of the five banks would comment.

UAL Stock Plunges

A number of UAL's investors, evidently concluding that the deal had hit a major roadblock, bailed out of the stock Tuesday. The company's shares plunged $16.875 following a report in



this newspaper that Citicorp and Chase were likely to pull out of the deal. The stock was down as much as $21 before rebounding somewhat late in the day.

The union group proposed to buy out the airline holding company in March for $201 in cash and securities, looking for roughly $4 billion from the banks. This offer was scaled down from management's aborted $300-a-share bid that failed noisily last October.

Citicorp's departure from the bank group is considered to be

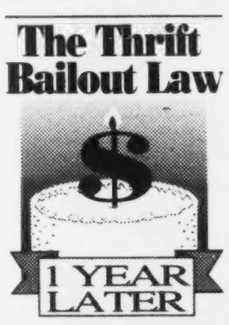
See **CITICORP** *page* **22**

Year-Old Resolution Trust Corp. Is Under Pressure to Move Assets

By DEBRA COPE
Third of a Series

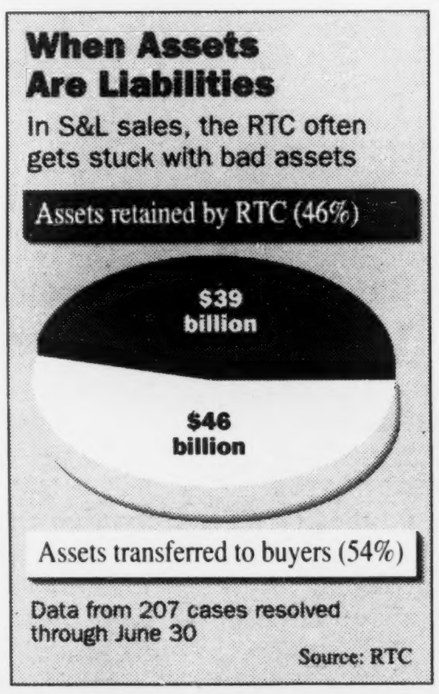
Nobody can say the Resolution Trust Corp. isn't trying.

One year into the massive job of mopping up failed savings and loans, the agency has racked up some impressive achievements: 211 thrifts shut or sold at a cost of $25 billion; 257 lined up in conservatorship; more than $60 billion in 5.7 million deposit accounts protected, and nearly $50 billion of assets transferred to private hands.



But the real work is just beginning. The RTC starts its second year with a mountain of distressed real estate, troubled loans, and other sour assets that totaled $37 billion at the end of June and could ultimately top $100 billion.

Bush administration officials estimate an additional 250 to 550 thrifts could ultimately require aid, bringing total failures into the range of 700 to 1,000. The Office of Thrift Supervision has already earmarked 621 thrifts with $343 billion in assets and $249 billion in deposits that may eventually need assistance.


When Assets Are Liabilities
In S&L sales, the RTC often gets stuck with bad assets
Assets retained by RTC (46%)
$39 billion
$46 billion
Assets transferred to buyers (54%)
Data from 207 cases resolved through June 30
Source: RTC

Moving impaired assets, the residue of S&Ls deemed "resolved" by the RTC, won't be easy – especially in an increas-

See **RTC** *page* **18**

BNE Discussing Membership in Home Loan Bank

By TOM LEANDER

Bank of New England Corp. is holding discussions on becoming a member of the Federal Home Loan Bank of Boston, the *American Banker* has learned.

The unusual membership would have attractions for both sides. Bank of New England would gain the ability to borrow at low rates from the district banks, providing another source of liquidity. The Home Loan Bank would gain by far its largest commercial bank member – $23 billion in assets – at a time when many of its thrift constituents are going out of business.

Law Expanded Eligibility

Under the thrift bailout law, membership eligibility in the Federal Home Loan Bank System was expanded to include credit unions and commercial banks that have at least 10% of their assets in residential mortgage loans.

"This is something that more and more commercial banks are

See **BANK** *page* **11**

COMMENT / *By Lowell L. Bryan*

Banking Crisis Is Different And Could Be More Serious

Journalists are already comparing the developing crisis in commercial banking to the savings and loan crisis. "What will this new crisis cost the taxpayers?" they ask.

They miss the point.

The banking crisis has far more serious implications for the economy, and the nation, than simply another taxpayer bailout. What is at risk is the health of the nation's $5.4 trillion economy and the global competitiveness of the United States in years to come.

The savings and loan crisis is a story of unenforced regulation, fraud, political gridlock, and with few exceptions, a decade of neglect by political leaders. The bottom line of this story is grim enough. Best estimates are that it will take $150 to $200 billion in current cash from the taxpayers to achieve an orderly liquidation of insolvent savings and loans.

A Different Story

The banking industry story is substantially different. That industry has about $200 billion in equity capital to absorb losses, while the savings and loan industry has had no tangible capital to speak of over the past decade. The banking industry is about three times the size of the thrift industry and is far more important to the economy.

Banks are the primary source of finance for individuals, small businesses, and midsize companies. Banks provide the payment services (checks and money transfers) for the entire nation.

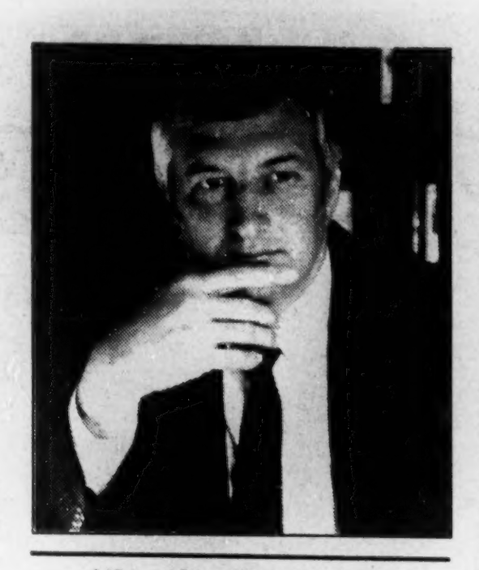
Money-center banks finance U.S. industries worldwide and represent the nation in the world's global capital markets. Moreover, banks are the Federal Reserve's primary vehicle for implementing monetary policy.

While the nation needs banks, the S&L industry lost its primary reason for existence about 10 years ago with the development and maturity of the mortgage-backed securities market. For the most part, healthy S&Ls are healthy because they act more like commercial banks or mortgage banks than classic thrifts.

A Plague of Loan Losses

There are, of course, some similarities between the savings and loan crisis and the problems developing in the banking industry. In particular, loan losses, in both industries have been massive. Commercial bank loan writeoffs have been over $70 billion during the past four years and are headed higher still; $6.6 billion was charged off in the first quarter of 1990.

In contrast, commercial banks wrote off only $28 billion from 1948 to 1981. If we were to have a recession, commercial bank loan losses would rise dramatically and the bank insurance fund would be under enormous strain.



"Institutions that take uneconomic risks should be allowed to fail, regardless of size."

Regulators have focused on the similarity between S&Ls and banks. No one wants to be held responsible for a repeat of the S&L crisis. Their first impulse has been to toughen lending standards and raise capital requirements.

Such conservative regulation is appropriate for all government-insured depositories, and it should have been started several years ago. In the short term, however, we face a potentially devastating credit crunch, particularly for small businesses, midsize companies, and builders.

Regulators are now aware of these risks. In their public discussions with bankers they have urged them to keep funds flowing to all creditworthy borrowers. The regulators face an unenviable task. They are walking a tightrope between being too strict and not strict enough.

Tougher regulation is not enough. If we want to maintain global economic leadership into the next century, we must remake our banking system to accommodate emerging markets around the world.

Both the savings and loan and banking crises share a common cause. They are both a result of unleashing market forces without fundamentally reforming the regulatory structure. In particular, interest rate ceilings on deposits were removed without consideration of the consequences.

Weak competitors, which were least able to replace their regulatory-based profits, plundered the deposit insurance system to replace this lost income with high-risk assets. In many thrifts, outright frauds were allowed to raise money and funnel it into their own pockets.

Uneconomic Activities Abetted

But the larger problem was that credit flowed into uneconomic activities. In a few years, a mountain of credit was created to finance commercial real estate, condominiums, and takeovers of companies at prices well in excess of the ability of borrowers to finance that debt out of cash flow. Meanwhile, the government was slow to remove failing competitors from the industry.

The result is a fundamental overcapacity that has eroded the profitability of even the best banking competitors. More seri-

See **COMMENT** *page* **12**

Mr. Bryan is head of the North American banking practice at McKinsey & Co. in New York.

GRAPEVINE / *By Jed Horowitz*

Citi Clamps Down, Callen-Style. The memo to 15,000 Citibankers arrived last Friday with an ominous introduction. "We must act," wrote Michael Callen, head of investment and corporate banking in Japan, Europe, and North America. "Our performance versus plan makes that abundantly clear. No one can wave a magic wand and make the marketplace a kinder or gentler place — that's not reality."

But instead of hoisting the ax, Mr. Callen merely outlined eight policies on expense cutting — most of which staff member thought were already in place.

The "new" policies: Prior written approval from senior executives is required for any external hires, for external consultants, for purchases of PCs and mobile phones, and for offsite conferences; meals among staffers in the same city will no longer be reimbursed; economy class is the rule when flying domestically, and business class may be used only on international flights beyond six hours. Mr. Callen also urged that use of hired cars be limited.

A spokeswoman said that Mr. Callen's intent was to ensure "a more even, across-the board approach to costs." As for the staff cuts? "Everyone is still waiting for the other shoe to fall," said one banker.

* * *

Banks in Armor. After almost 20 years, the Federal Reserve Board is letting banks into the armored car business. The Fed last month overturned a ruling by an administrative law judge who said that armored car services are not closely related to banking, so bank holding companies and their subsidiaries cannot run them.

Most banks own armored cars and use them to service automated teller machines and transfer funds among their own offices. But the banks also have excess capacity, which they want to sell to customers, said Richard Whiting, general counsel at the Association of Bank Holding Companies.

For Metrocorp, the small East Moline, Ill., holding company that was the subject of the administrative law judge's ruling, the victory is not so clear. "We still have a relatively big fight on our hands," said Marcus Hobert, general counsel of the $160 million-asset company.

He said the judge, Paul G. Clerman, has now been ordered by the Fed to determine whether armored car services meet a second test of "proper incidence" to banking. All the major armored car companies and their trade associations are fighting to prove that they do not, he said.

While the "closely related" decision provides a general imprimatur, the proper incidence qualification is much more bank-specific. Metrocorp will have to show that offering the services won't harm competition locally, violate local branching laws, or affect the safety and soundness of its main subsidiary, Metro Bank, Mr. Hobert said.

* * *

Republic in the Palms? It's an open secret that Republic New York Corp., the capital-rich New York bank, wants to buy Florida Federal Savings Bank, the failing St. Petersburg-based thrift.

Officials at neither institution would confirm rumors that have circulated throughout Florida for several weeks. But the *St. Petersburg Times* reported on Tuesday that Republic is pursuing a deal. "We do have an investor with a strong interest in recapitalizing us," a spokeswoman for Florida Federal said Monday, noting that several other potential rescuers dropped out after the company said it would have a negative net worth of about $90 million after adding $36.3 million to its loan loss reserves.

Officials at Lyons, Zomback & Ostrowski, the New York investment bank that represents Florida Federal and also has done deals for Republic, would not comment.

A deal would almost certainly be contingent on the government's pumping at least $90 million into Florida Federal and assuming some problem loans. Republic, controlled by Edmond Safra, would have to add about $135 million of capital to bring the $4.5-billion asset thrift's tangible capital up to the 3% level required by regulators, said Samuel Beebe, an analyst at Williams Securities Group.

Republic, which prides itself on cheap funding that comes from having a large retail deposit rate, in the past three years has purchased the $3 billion-asset Manhattan Savings Bank and the $3 billion-asset Williamsburgh Savings Bank. The 78-branch Florida Federal – despite its involvement in a student loan scandal – would be a natural fit for Republic, analysts said.

* * *

Still Hot on Junk. Bankers Trust New York Corp. lost the bidding for Columbia Savings and Loan Association's $3 billion-plus portfolio of junk bonds last week, bank sources confirmed, but picked up an education in the process. "We showed some credit horsepower in evaluating the pieces and presumably picked up some leads," said one banker.

Bankers Trust also is readying a private placement of a junk issue that should be "teed up within the next few weeks," an official said. It would be the first junk issue managed by Bankers Trust since it received permission from the Federal Reserve Board last year to underwrite corporate debt. □

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PRIVATE BANKING

Offitbank Is Set to Open - With Help from a Rival

By MAUREEN NEVIN DUFFY
Special to the American Banker

Morris W. Offit is converting his small, closely held investment management firm into a limited-purpose trust company, or private bank. And one of his initial investors is a competitor.

Pitcairn Financial Management Group, a high-end investment firm in Jenkintown, Pa., has put $500,000 in the newly formed Offitbank, New York.

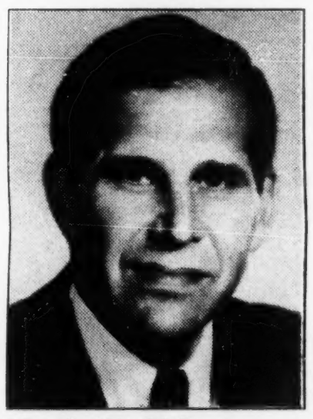
Pitcairn, which is entering private banking through the acquisition of Trustees' Private Bank in Philadelphia, bought the stake in Offitbank on the recommendation of David Lawson, Pitcairn's vice president in charge of small capitalizations. Mr. Lawson said he was impressed by the firm's "ability to leverage its investment management business with private bank services."

As with many other investment houses, "a lot of high-net-worth clients were going elsewhere for their private bank needs, such as collateralized lending," said Mr. Lawson. "I saw Offit Associates' move as the opportunity to recapture that base of business. Furthermore, he's got a pretty big upside to his private bank just by tapping his existing client base."

Offit has some 170 clients, 130 of whom are individuals or families. The rest are corporations, universities, and cultural and religious institutions. Its prime market is families with $10 million net worth.

Expanding Its Services

Because of its beginnings as a small, closely held investment advisory, Offitbank is similar to Pitcairn and to Bessemer Trust Co., New York. Both started with family trusts and branched out into other banking services.


Morris W. Offit

"I guess anyone in the investment business would be a competitor," Mr. Lawson said of Offitbank. But he stressed that the companies have had different investment strategies, Pitcairn being heavily involved in equities and Offit concentrating on fixed-income instruments.

Mr. Offit's fixed-income house concentrates on low-risk treasuries and mortgage-backed bonds, but it also manages some high-yield bonds.

The newly chartered investment management bank will emphasize global investment, Mr. Offit said. With the charter, he hopes to enter relationships with overseas banks of the European or Swiss tradition, which he used as a model for Offitbank.

Mr. Offit said he is even considering sharing ownership with foreign banks.

The charter also paves the way for the company to offer a broader array of services. Instead of directing clients to other banks for lending services, the company can now offer loans with portfolio collateralization, provide custodial services, and can act as a trustee.

Offitbank also plans to expand its foreign exchange services from individual to corporate clients. "We needed the charter to get access to the interbank market in foreign exchange dealings," Mr. Offit said. Foreign exchange transactions for clients amounted to $2 billion last year. About $600 million of the company's $2.5 billion under management is in global fixed-income products.

Offitbank, which was capitalized at $10 million, does not have Federal Deposit Insurance Corp. coverage, nor is it taking deposits. But Mr. Offit said it would consider both in the future.

Regulators Welcome

The New York State Banking Department approved Mr. Offit's charter application in late July after an 18-month application process.

Mr. Offit, 53, says he put his investment advisory service, Offit Associates Inc., into the arms of state banking regulators without apprehension. "I've always welcomed the prospect of regulatory oversight, because I thought it would make customers even more comfortable," he said. "Clients can walk in our offices any day and take a look at their records."

Before starting his own firm, Mr. Offit was with Julius Baer Securities until 1982. There he was responsible for domestic and international portfolio management. Before that, he spent 12 years with Salomon Brothers Inc. as a partner in charge of investment research, international sales, and trading. He was research head of Mercantile Safe Deposit and Trust Co., Baltimore, until 1968.

Perrin Long, an analyst with Lipper Analytical, New York, said Mr. Offit has had a good record as an investment adviser. "There is a great place for investment management services in today's economy," he said.

Mr. Offit is using the tag line "the investment management bank" on all promotional literature to distinguish the company from its credit-driven competitors.

Ms. Duffy is a freelance banking reporter based in New York.

Customer Service Training Gap Seen

Many Institutions Lack Formal Programs, Survey Finds

By ELLEN MEMMELAAR

NEW YORK — Customer service representatives are gaining in importance as bankers turn to them to aggressively cross-sell products. But many of these key staff members do not receive even basic training.

Only 64% of banks have formal training programs for customer service representatives, according to a survey by the Bank Administration Institute. The same poll showed that 57% of customer service managers consider training a critical issue over the next two years.

Second-Class Programs

Banks are indeed behind the times in training programs, some industry watchers said. They said expenditures for training are of secondary importance, management is often unfamiliar with the sales process, and many bankers attack sales from the wrong side of the desk.

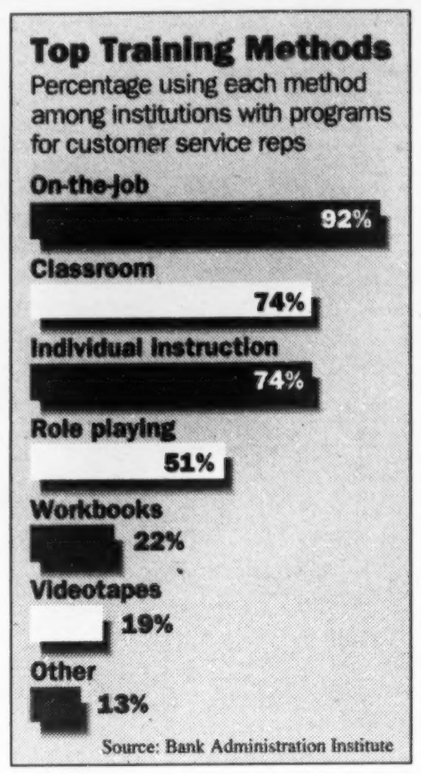
"Banks need to do a better job of understanding the economic benefits of training over time," said Les Dinkin, a Westport, Conn.-based consultant. "It's a different way of doing business."

Only 64% of banks have formal training programs for customer service representatives.

Bankers are relying less on rate slashing to attract customers and more on tellers and customer service representatives to generate revenue, observers said. To be effective, the employees must be well versed in cross-selling.

The Art of Cross-Selling

Customer service is the most important aspect of establishing a sales culture, said Robert Hall, president of Action Systems, a Dallas-based consulting firm.



In the first part of his company's employee training program, Mr. Hall takes bankers through steps to understand what service is, its importance to the overall institution, and the specific skills needed to improve service.

Then clients can be trained to cross-sell. For this stage, Mr. Hall teaches customer service representatives about the products and what they should look for in potential customers.

"It is as important to know who not to cross-sell as it is to know who to cross-sell," Mr. Hall said.

Reluctance at the Top

Bankers, however, are reluctant to inject dollars and manpower into such training programs because results are difficult to trace, Mr. Dinkin said.

Other experts cite a problem that begins at the top. Managers who have spent their careers in banking often do not know how to foster a sales culture.

Some managers simply "do not understand how to talk to the customer's needs," said David Bennett, president of Omega Performance Corp., a San Francisco-based consulting firm. "Bankers tend to talk about the product from the banker's point of view."

Creating a Sales Culture

A sales culture can be fostered only if management is knowledgeable about the sales process and actively encourages it, said James Schneider, a consultant based in Jupiter, Fla. If key people don't understand the process, "their own discomfort will be passed down," he said.

Of the respondents in the Bank Administration Institute study who have formal educational programs for customer representatives, 92% use on-the-job training; classroom and individual training tied for second place, at 74%. These methods get thumbs-up from consultants because they offer individualized training and allow for role-playing.

Self-directed programs using videotapes were reported by 19% of respondents, and 22% used workbooks. Other tools used include computer-based training, audio tapes, books, and manuals. But consultants caution that these self-training methods may only appear to be cost-effective.

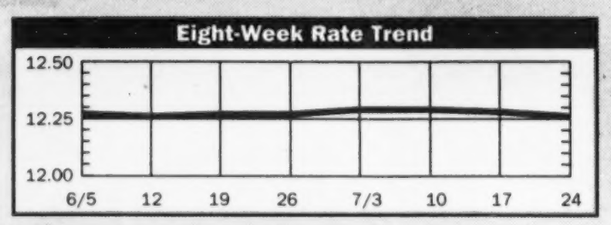
57% of customer service managers consider training a critical issue over the next two years.

"Videos are too passive," said Mr. Schneider. "Most programs teach a monkey-see, monkey-do kind of thing. Too often, the scenarios are not relative to the person working."

Mr. Dinkin said videos can effectively convey product knowledge but are less successful when used for sales training. "There needs to be a high level of interactive participation in order to understand and refine sales skills," he said. □

AMERICAN BANKER /*Bank Rate Monitor's*™

Consumer Money Index — **Auto loan rates and fees**



Here are the auto loan rates and fees being charged by selected large banks and thrifts nationwide on July 31. The rates are for a fixed rate $9,000, new-car loan, with a 20% down payment and a 48-month term. The 8-week trend is based on the rates charged by the 10 largest banks and thrifts in each of the nation's 10 largest markets on the dates shown.

Thrifts

THRIFT	RATE	FEES
Chevy Chase Svgs Bank, Maryland	11.50%	None
Great Lakes Bancorp, Ann Arbor, Mich.	12.75	None
St Paul Fed Bank, Chicago	11.50	None
San Jacinto Svgs, Houston	11.25	None
Sunbelt Svgs Dallas	11.25	None

Banks

BANK	RATE	FEES
American Security Bank, Washington D.C.	11.25%	None
Bay Bank, Middlesex, Mass	12.40	None
First American Bk of Virginia Mclean	11.50	None
Mellon Bank (East), Philadelphia	11.95	None
Riggs National Bank, Washington D.C.	11.75	None

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